b. Revenue growth

The Commission assumed (n.24 at ¶11) that, before its adjustment for an assumed loss of market share, the third-tier OSPs' revenues would grow at a 4.3% annual rate between 1991 and 1997, based on historical trends for total toll traffic revenues from 1984 to 1992. Sprint argued (at 15) that this growth rate was conservative, based on data showing that toll revenues during 1991-93 grew at a 6% annual rate, and that the Commission failed to take into account the increases that have occurred in the spread between the third-tier OSPs' rates and the large OSPs' rates.

A few carriers argue that the Commission has overstated, rather than understated, the growth rate, but none provide credible evidence for their assertions. AT&T states (at 5-6) that the industry-wide growth rate for all operator services has averaged only .63% and has been negative during 1993-94. Bell Atlantic (at 10-11) expresses the belief that the 0+ marketplace will grow at less than the 4.3% rate assumed by the Commission, and states that its own operator-assisted call volumes have actually decreased since 1990, overlooking the fact that some of this decrease may be attributable to AT&T's use of a proprietary card and promotion of dialing access methods which may have given AT&T much of the intraLATA traffic once captured by Bell Atlantic. CompTel alleges (at 10) that the actual growth rate has been "far more lethargic" than 4.3% and assumes "for the sake of illustration" that it

is more likely to be on the order of 2% during the 1991-97 period.

None of these parties provide any hard evidence to support their claims of lower growth rates.[14] Even if they are correct, however, and if the lower growth is attributable to debit cards and use of wireless phones to make sent-paid calls, as AT&T and Bell Atlantic assert, the public benefit analysis of the Commission still remains valid. Both debit cards and wireless services will usually cost more than a 0+ calling card call. The typical rate for a debit card call is 60¢ per minute. Thus, a debit card will be more expensive than a telephone calling card (used on the network of a large OSP) for any call greater than two minutes in length. For a typical 8-minute call, the charge for a debit card would be $4.80, while a call charged to Sprint's FONcard for a distance between 125 and 3,000 miles would vary from $2.12 to $3.18, depending on the exact distance and the time of day. Wireless calls are also more expensive than the calling card charges imposed by major OSPs. A cellular phone subscriber calling from out of town to his or her home or office would incur roaming charges of 50-75¢ per minute, in addition to the standard MTS toll rates (and, depending on the location the subscriber is calling from, possibly a daily roaming charge on the order of $3.00 per day). The per-minute roaming charge is

[14] AT&T does not provide any evidence as to what its own growth rate has been, nor does it share the basis for its industry estimates.

less than the 80¢ flat calling card surcharge for calls of one minute or less, but for an 8-minute call, the roaming charge would be between $3.20 and $5.20 greater.

It is quite possible that debit cards and cellular phones have lowered the growth rate of traditionally placed away-from-home calls. But the most logical explanation for why they would do so is the public's fear that they might be faced with the exorbitant rates charged by alternative OSPs. There is no reason to assume that if BPP is adopted, former calling card users would continue to use more expensive debit cards or cellular services in place of more convenient, less expensive calling cards. Thus, the same type of savings benefit to the public, would result from BPP. As a result, even if the growth rate of operator services turns out to be lower than the Commission's estimate because of the use of debit cards and wireless services, that does not mean that the benefit to the public from BPP will be less than the Commission projected.

c. OSP Market Shares

The Commission's analysis assumed (n.24 at ¶11) that the market share of the third-tier OSPs would drop by one-third, from 12.7% of away-from-home minutes to 8.5% of away-from-home minutes, as callers increasingly dial-around the alternative OSPs who charge high rates, and that the rate of dial-around calling would increase to 50% on public phones by 1997 (n.25 at ¶12). In its initial comments, Sprint argued that this assumed drop in market share may be overstated and expressed

the view that the number of privately owned payphones (which generally use third-tier OSPs) may be increasing faster than the number of LEC-owned payphones. Sprint also argued that, in any case, the alternative OSPs might seek to offset any further loss of market share through further increases in their rates. See, Sprint's Comments at 15-16.

The evidence discussed above as to the actual rates currently being charged by alternative OSPs demonstrates that they are certainly not shy about increasing their charges. Moreover, the Jackson-Rohlf Study appended to APCC's Comments corroborates Sprint's belief that the number of private payphones is increasing much faster than LEC-owned payphones: Exhibit 3 of that study projects a cumulative annual growth in the number of privately owned payphones of 10.34% during the period 1992-97, versus growth rates for BOC-owned payphones of 2% and independent telco-owned payphones of 3%. It also projects that payphone revenue to long distance carriers and operator service providers will increase at a cumulative annual growth rate of 4.83% in that same period.

AT&T (at 6-8) distorts the market share discussion in n.24 of the Further Notice. The Commission projected that the combined market share of all third-tier OSPs will drop by one-third as callers increasingly dial-around those third-tier OSPs with the highest rates. AT&T, on the other hand, argues that only the OSPs with the "highest rates" will account for the entire market share loss of the third-tier OSPs. Thus, according to AT&T, at the end of the 1997 period, the third-

tier OSPs that charge high rates will account for far less traffic than they now do, and the differential between the average third-tier OSPs rates and those of full service carriers will be much lower than the 19¢ assumed by the Commission.

There are several flaws in AT&T's analysis. First and foremost is the fact that the alternative OSPs charge rates that are far higher than the 66¢ per minute assumed by AT&T. Second, AT&T assumes that consumers will only dial-around the "high priced" OSPs, and not those third-tier OSPs that charge competitive rates. This is clearly not the case. Consumers "dial-around" the presubscribed OSP for one of two reasons: First, their long distance carrier instructs them always to dial-around, i.e., use an access code. Such carriers include Sprint, MCI and third-tier IXCs that issue calling cards. Second, consumers are instructed by their long distance carrier to dial-around when that carrier is not the presubscribed OSP. That is what AT&T instructs its customers to do and does not ask those customers to differentiate between "high priced" third-tier OSPs and other third-tier OSPs. It strains credulity to believe that consumers will know which third-tier OSPs charge high rates and which do not, and will dial-around only those that do. It is far more likely that consumers will dial-around any time the presubscribed carrier is not their carrier of choice. This means that third-tier OSPs that charge competitive rates will

suffer as much of a traffic decline as the alternative OSPs that charge exorbitant rates.

A number of other parties claim that dial-around is already much higher than the Commission had assumed it would be. AMNEX claims (at 9) that the 50% dial-around mark has already been met by the industry with some locations experiencing a 70% rate. APCC (at 22) states that the "most recent data collected from several thousand payphones between June 1993 and June 1994 indicate that more than 60% of interstate operator-assisted calls at [private payphones] were dialed with access codes." NYNEX (at 4) claims that a study of 459 payphones showed a dial-around rate of 66%. Teltrust asserts (at 12) that at locations frequented by travelers, dial-around has risen to 54% in 1994, but it does not indicate how may phones were included in this estimate and admits that its sample "is limited." (Teltrust at 12). U.S. Osiris argues (at 8-9) that at 60 specific hotels, dial-around during January-May 1994 was 58%, excluding 800 calls, and that from 160 other locations the dial-around percentage was 52%.

None of the parties alleging an increase in dial-around rates attach the studies they rely on or explain how dial-around was measured. They cannot know whether a call made through, for example, an 800 number was merely an attempted call or a completed call. Thus, even if their count of 800-code call attempts was accurate, it is possible they are measuring 800 call attempts against 0+ completed calls, which would distort the results.

On the other hand, Ameritech states (n.12 at 8) that a March 1994 study showed that 45% of calling card users never use an access code and of the 55% who do, such codes are used about 63% of the time. Thus, overall, access code calls would account for only 35% of the calls of the consumers in Ameritech's sample.

Even if it can be assumed that overall, access code calling has reached the neighborhood of 50% on phones presubscribed to third-tier OSPs, there is no reason to believe that the percentage of dial-around will continue to increase, as some parties claim. MCI's 1-800-COLLECT campaign and AT&T's efforts to sensitize its consumers to using dial-around codes when it is not the presubscribed carrier, are "mature" programs by now, and it can be expected that most of the increase in dial-around calling assumed by the Commission in the 1991-97 period has already taken place.

In any event, in view of the Commission's very significant underestimation of third-tier OSP revenues per minute, the savings from avoiding high rates of alternative OSPs, if billed party preference is implemented, are likely to to approximate those estimated by the Commission even if the traffic growth rate and loss of marketshare due to dial-around traffic were understated substantially in the Commission's analysis. If, for example, it is assumed that in 1997 the average revenues of third-tier OSPs (before traffic growth and market share adjustments) were 90% above the rate of large OSPs (as discussed above) and the average rate of the large

OSPs is the 34¢ per minute assumed by the Commission, then the revenues of the third-tier OSPs would be $1.47 billion,[15] of which 45%, or $662 million, would be attributable to charges in excess of the AT&T, MCI and Sprint rate. Assuming no growth in the overall operator services market, and a 50% loss in market share for third-tier carriers (rather than the one-third loss assumed by the Commission), there would still be $331 million in third-tier charges above the composite AT&T, MCI and Sprint rate (before the adjustment for intraLATA calling), which is within the range of the $370 million, estimated in the Commission's analysis, that would be saved after implementation of BPP. There would also be additional savings, as discussed above, from diversion of calls from debit calls and cellular services to the less-expensive calling card services in a BPP-environment. In short, there is little reason to suppose that the Commission has overstated the benefit to the public in the form of lower charges for their calls.

It may be noted, in this context, that several parties suggest that the alternative OSPs will be induced by the threat of increasing dial-around traffic to moderate their charges (see, Section III. A, below). The fact that they have not done so, and indeed have sharply increased their charges while dial-around traffic has assertedly increased in the past

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[15] $1.2 billion (the Commission's estimate of 1997 third-tier OSP revenues, before adjustments), divided by .53 (the Commission's assumed third-tier rate per minute) times .65 ($.34 times 1.9).

two or three years, is evidence that these carriers believe they have a captive market of consumers who are unwilling or unable, for whatever reason, to utilize an access code as an alternative to using the presubscribed 0+ carrier. There is no reason to suppose that these carriers will moderate their pricing philosophy in the future, absent BPP, and every reason to assume any further declines in their call volumes will be offset by additional increases in their charges.

2. Savings From Avoiding Commissions Expense

The other element of quantifiable cost savings included in the Commission's cost-benefit analysis was the commissions expense that would no longer have to be paid to premises owners and aggregators in order to compete for their 0+ presubscription. The Commission estimated that by 1997, the annual savings on interLATA 0+ commissions would total approximately $340 million. The starting point for this estimate was that total OSP revenues from aggregator phones amounted to $6.1 billion in 1991, of which $1.2 billion was third-tier OSP revenue. The Commission then applied the revenue growth adjustment (4.3% annually) discussed above, and adjusted the total 1997 OSP revenues downward to account for the assumed shift from higher priced OSPs to lower priced OSPs between 1991 and 1997 (i.e., the decrease in third-tier market share discussed in the preceding section). The Commission assumed that 1/3 of anticipated third-tier OSP revenues in 1997 would be priced at the AT&T/MCI/Sprint rate, rather than the rates charged by alternative OSPs. The Commission then

eliminated revenues from intraLATA calls, and assumed that the dial-around rate would increase to 50% by 1997. These adjustments resulted in estimated interLATA 0+ revenues from public phones of $3.2 billion in 1997, to which a 12% commission rate was applied. (Note that the Commission's methodology implicitly assumes no commissions are paid on dial-around calls.) Finally, the Commission adjusted the resulting $380 million in estimated commission payments downward first to reflect an assumed doubling of compensation to competitive payphone providers, and second to subtract commissions expense related to the "excess" third-tier OSP revenues that the Commission assumed would disappear with the implementation of BPP. These two adjustments lowered the savings in commissions expense to approximately $340 million per year. See, Further NPRM, ¶12 and n.25.

In its initial comments, Sprint argued (at 19-22) that the projected savings of commissions expense is substantially understated. Sprint pointed out that its own commission rates rose from 20.3% in 1991 to 27.0% for the first five months of 1994 and questioned the Commission's implicit assumption that commissions are paid only on 0+ traffic and not dial-around traffic when the dial-around carrier is the presubscribed carrier. Sprint noted its understanding that AT&T, the largest OSP by far, now pays commissions on dial-around calls. Sprint further observed that the private payphone industry recently agreed to reduce the level of the dial-around compensation from an effective rate of $.40 per call at

present to $.25 per call. Finally, Sprint stated that it was not clear whether the Commission's analysis took account of property imposed fees, which it stated, often amount to $2 or $3 per call; like commission payments, these PIFs can also be expected to disappear under BPP.

While AT&T was not forthcoming about the commissions it pays,[16] the Washington Post Article, supra, discloses (at D2) that AT&T pays cities which control more than 75 phones a commission rate of 22%. Given Sprint's own experienced commission rates, described above, 22% would be a far more reliable estimate of AT&T's current commissions expense than the 12% utilized by the Commission.[17] Adjusting the

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[16] In adjusting the Commission's analysis, AT&T (at 12) utilizes an average commission rate of 14% but does not disclose what its own commission rate is.

[17] Since AT&T can handle more commissionable calls than Sprint because of its larger customer base, it is not suprising that AT&T's percentage commission rates are somewhat lower than Sprint's current experience. AT&T can deliver the same dollar value of commissions to the premises owner by paying a lower percentage rate on a higher volume of traffic. See, Further Notice, n.28 at ¶14.

On the other hand, the 12% commission rate may be an appropriate assumption for the alternative OSPs. Since their rates to the public are so much higher than those of full-service carriers, they can pay a higher dollar level of commissions while still paying a lower percentage rate. For example, the Washington Post Article disclosed (id.) that ONCOR agreed to pay $1.40 per call to the District of Columbia. Adjusting the charges for the call disclosed in that article to reflect an 8-minute duration, which approximates the average call length, ONCOR's charges would be approximately $14.28 (8/11 times $19.64 equals $14.28). (This methodology, by assuming a constant average rate per minute, undoubtedly understates ONCOR's charges for an 8-minute call, since operator service charges are typically composed of a fixed service charge plus a rate per minute.) Thus, the adjustment made by the Commission to third-tier commissions to exclude double counting (see the second paragraph of n.25 of

commissions expense to reflect an assumed average rate for major IXCs of 20% (which, as indicated above, is a conservative assumption), and to reflect the payment by AT&T of commissions on dial-around calls where it is the pre-subscribed carrier, results in a far larger savings in commissions expense than the Commission had projected. The Commission assumed in n.25 that the operator service revenues of AT&T, MCI and Sprint would total $6.4 billion in 1997 from aggregator phones. Adjusting out intraLATA calls (at the Commission's assumed rate of 18.1%) reduces the operator service revenues of these carriers to $5.24 billion. Assuming that the dial-around rate is 50%, there would be $2.62 billion in commissionable 0+ revenues for AT&T, MCI and Sprint. If the average commission rate is 20%, the commissions expense paid by these three carriers on 0+ calls would total $524 million. Furthermore, if it is assumed that AT&T's share of the combined AT&T/Sprint/MCI share of the aggregator market is 60% (a conservative assumption), and that half of the dial-around calls on such phones are calls to AT&T's access codes, AT&T would pay an additional $157 million in commissions.[18] Thus, without considering any commissions now paid by either full service third-tier OSPs or third-tier alternative OSPs,

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the Further Notice) is probably close to the mark even though the Commission has underestimated the commissions paid by large OSPs.

[18] $5.24 billion times .6 (AT&T marketshare) times .5 (dial-around) times .5 (assuming half of dial-around goes to AT&T) times .2 (commission rate) equals $157.2 million.

the savings in commission expense in 1997 would be far greater than the amount estimated in the Further Notice.

Several opponents of BPP criticized the Commission's analysis of savings in commissions expense. However, as discussed below, those attacks are either unsubstantiated or otherwise without merit. Many of the criticisms of the Commission's analysis relate to claims, already discussed in Section I.A.1. above, that the Commission overstated the growth rate and has underestimated the amount of dial-around traffic. The Commission's analysis of savings from commissions expense is challenged on several other grounds as well.[19] The first argument is that the major OSPs are unlikely to pass any savings in commissions expense through to consumers in the form of lower rates.[20] In a market that is an intensely competitive as the long distance market, the only circumstance under which it can be posited that the major OSPs would fail to pass their savings in commissions expense on to their consumers is if the rates they presently charge for operator service calls are not fully compensatory, i.e., have

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[19] A related contention, that the IXCs would incur additional marketing expenses under BPP, is dealt with in Section II.B.2., below.

[20] See, e.g., Bell Atlantic at 4-5 and ONCOR at 20-21. Bell Atlantic buttresses its claim with the palpably false assertion that the IXCs fail to fully pass-through access charge reductions to their customers. In fact, the IXCs' average revenue per minute, net of access charges, fell from 15¢ in 1985 to 5.1¢ in 1992 (adjusted for inflation). See, Robert E. Hall, "Long Distance: Public Benefits From Increased Competition," Applied Economics Partners, October 1993, at 9-10.

not kept up with the ever-increasing level of commissions expense the IXCs must incur under the present system. Absent that circumstance, it is unrealistic to assume that the IXC industry could, for any significant length of time, retain a windfall in the form of savings in reduced commissions expense.

APCC (at 26-27), AT&T (at 13-15) and CompTel (at 12) argue that aggregators will recoup their "lost" commission revenues by increasing the charges that they impose on consumers for goods or services that they provide. There are two basic answers to this argument.

First, even if it can be assumed that premises owners would make up for the lost commissions through higher rates for other goods and services, that is not a reason for excluding savings in commissions expenses by OSPs from a cost/benefit analysis of BPP. The Commission's statutory charge in Section 1 of the Act is "to make available...a rapid, efficient...communication service...at reasonable charges... ." The Commission has no jurisdiction over other sectors of economy and is not responsible for the pricing practices of hotels, convenience store chains, local airport authorities, and the like. However, it is the Commission's duty to minimize unnecessary expense for communications services. Instituting billed party preference, and thereby eliminating premises owner commissions, will clearly achieve that goal.

Second, as Sprint pointed out in its initial comments (at 17-18), allowing premises owners to charge consumers indirectly through the commission payments they receive from phone calls (and additional PIFs some may receive) is a particularly invidious way of pricing from a public interest point of view. The amount that is collected by the premises owner in the form of commission payments received from OSPs is hidden in the charges for the long distance calls placed from phones on the aggregators' premises, so there is no visibility to the consumer as to how much the premises owner is extracting for the privilege of using a phone on the premises. Furthermore, the charges for the phone call itself are not levied on the consumer until weeks after the consumer has left the premises. This means that where the premises owner has chosen to use a high-priced alternative OSP, the consumer may not be aware of the charges he is expected to pay for the phone call until weeks later when he is billed for the call through his local telephone company. As a result, premises owners who hide behind high rates for phone calls and commission payments from aggregators are not exposed to the price scrutiny that normally takes place in the marketplace. It is far better, from the viewpoint of consumer interests, to have the premises owner disclose up front what its charges are, so the consumer can decide whether to shop around for a better price, than to hit the consumer, weeks after the fact, with hidden charges for phone calls made from the premises.

CompTel argues (at 11) that the Commission erred by ignoring the dial-around compensation IXCs are currently paying to private payphone owners. As indicated above, the Commission made a downward adjustment to the savings in commissions expense to reflect an assumption that it would double the amount of dial-around compensation paid to private payphone owners if BPP were implemented. CompTel fails to articulate why it believes the existing level of payphone compensation must be used as a further offset against commissions expense if and when BPP is implemented. The only impact the initial dial-around compensation requirements have had is to increase the OSPs' cost of doing business under the present system. They are paying these amounts now, and would continue to pay them (based on the Commission's assumption) under BPP. Thus, the existing dial-around compensation payments are irrelevant to a cost-benefit analysis of BPP.

Bell Atlantic, while asserting that the Commission's analysis correctly adjusts for interstate dial-around compensation to private payphone owners, argues (at 11) that the Commission has ignored intrastate dial-around compensation. Currently, only three state commissions have ordered dial-around compensation, and the order in one of those states (Georgia) is in abeyance pending appeal. The fact that the vast majority of state regulatory commissions have not yet prescribed dial-around compensation on intrastate calls makes Bell Atlantic's assumption that they would do so

with the implementation of BPP highly speculative, to say the least.

Finally, AMNEX argues (at 6) that it was improper for the Commission to calculate savings both in lower rates to the public and reduced commissions expense because commission payments are the root cause of the higher rates charged by some OSPs. AMNEX implicitly assumes that 100% of the excess it and other carriers charge over the rates of competitively-priced OSPs constitutes commissions expense, but it provides not a whit of factual support for this proposition. Much of the excess charges may reflect higher profits or higher costs of alternative OSPs (some of whom claim that their costs are inherently higher than those of large OSPs).[21] Furthermore, the Commission made an adjustment to eliminate any possible double-counting of the portion of alternative OSP commission expense that is attributable to their higher-than-competitive prices to consumers.[22] In any event, the vast bulk of the savings in commission expense is not from alternative OSPs but from competitively priced OSPs, and it was entirely proper for

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[21] Private payphone providers who also act as OSPs undoubtedly retain most of their excess revenues (either for themselves, or to defray the costs of their equipment or the transmission they buy in bulk from IXCs), and pass on only a small portion of their revenues to owners of premises where their phones are placed.

[22] APCC criticizes the double-counting adjustment (Jackson-Rohlfs Study at 20-21) but its analysis is flawed (e.g., grossly understates the commissions paid by large OSPs on aggregator calls), and it does not provide any actual data on the practices of the payphone-provider OSPs it represents.

the Commission to consider the elimination of this expense as a benefit from implementation of billed party preference.

B. Implementation Costs

1. LEC Costs

Sprint had hoped to be able to make a critical evaluation of LEC implementation costs, but many of the LECs failed to include sufficient accompanying explanation or detail to permit this to be done.[23] Nonetheless, as will be discussed below, the implementation costs of many LECs are substantially lower than their previous estimates -- as is true for Sprint's LECs (see, Sprint's Comments at 27-31) -- and a properly implemented system of billed party preference would entail costs much lower than many LECs have estimated.

Ameritech (at 9-10 and Attachment A) projects costs that are substantially higher than its previous estimates: its non-recurring expenses and capital costs have risen to $104 million from $48.8 million, its annual operating costs have jumped sharply from its previous estimate of $14.1 million to $35 million currently.[24] The basic reason for the increase in non-recurring costs, according to Ameritech, is its belief that OSS7 at the end-office level has no function other than supporting BPP and that all such costs should be attributable to BPP. (It previously had only assigned a portion of such

[23] Pacific provided no updated cost information in its initial comments, and U S West did not file comments at all.

[24] All references to previous estimates for Ameritech and other LECs, unless otherwise referenced, are to data shown in Appendix C of the Further Notice.

costs to BPP.) Thus, Ameritech's network costs for BPP have increased by $37 million, reflecting both the attribution of all OSS7 costs to BPP and revised vendor pricing (Ameritech at 10). Unfortunately, Ameritech does not break down the $37 million increase as between the attribution of OSS7 costs to BPP and the effects of revised vendor pricing. It was Sprint's experience (Comments at 29) that vendor price quotes have come down and thus the amount attributable to end office deployment of OSS7 may be substantially greater for Ameritech than the net $37 million increase in its network costs. In any event, as discussed in Sprint's initial comments (at 39), there is no sound reason why OSS7 must be deployed below the operator services switch (i.e., operator tandem) level. Thus, Sprint believes that the costs attributable to end-office deployment of OSS7 by Ameritech can be eliminated.

Ameritech also includes costs of $15.6 million for "customer notification and response processing" (Attachment A). Sprint assumes that those costs relate to the form of balloting tentatively proposed by the Commission. If the Commission instead were to adopt a simple customer notification requirement, the implementation costs for Sprint's LECs would be reduced from $5.1 million to $0.1 million, and Sprint believes Ameritech could achieve comparable cost reductions as well.

With respect to recurring expenses, Ameritech had previously estimated that all such charges would be attributable to operator salaries and that such salaries would

amount to $14.1 million. Ameritech now is projecting operator salaries of $22.7 million, with no explanation for the roughly 50% increase, and in addition shows recurring expense for LIDB amounting to $12.5 million. No other LEC shows any substantial amount of LIDB expense, and Sprint is at a loss to understand the basis for Ameritech's estimate.

Bell Atlantic (at 12) has revised its estimate of non-recurring costs upward slightly from $125.5 million to $135 million while its recurring expenses rise slightly from $8.6 million to $9 million annually. However, Bell Atlantic provides absolutely no breakdown or explanation of its estimates, which precludes any meaningful analysis or reliance on its data. To the extent Bell Atlantic has included costs for balloting or OSS7 deployment to end-offices, Sprint believes those costs can be eliminated for reasons discussed above.

BellSouth (at App. A) shows substantially lower implementation capital and non-recurring expenses than previously: $100 million as compared with its previous estimate of $145.6 million. However, its recurring expense is up substantially from $6.8 million (of which all but $3 million was for operators) to $29.0 million, all of which it attributes to operators. BellSouth offers no explanation for why its estimate of operator costs has increased so substantially. BellSouth also assumes (at 13) that OSS7 software will be deployed to end-offices, which Sprint believes is unnecessary, and includes a substantial allowance

for deployment of AABS, which may have the effect of reducing BellSouth's needs for operators to handle local or intraLATA calls, thus offsetting the need to add operators for interLATA calls. BellSouth also shows a $4.4 million cost for balloting, which could be largely eliminated if simple customer notification is adopted instead. Nonetheless, despite all of these possible overstatements in BellSouth's expense, BellSouth estimates that the unit costs of implementing BPP (including amortization of non-recurring expense and recovery of capital costs) would only amount to 9¢ per call in 1997. This is 18% under the 11¢ per call cost it estimated in its July, 1992 comments in this docket.

GTE estimates initial costs of only $62.8 million -- roughly half its previous estimate -- if OSS7 is not deployed to the end-office level, but states that such deployment would increase its start-up costs by $97.5 million (Attachment A). GTE also projects $17.5 million in additional costs if inmate phones are excluded from BPP, a consideration which the Commission should take into account in determining whether inmate phones should or should not be subject to BPP. However, GTE expects sharply higher costs for operators and leased trunking expenses than its previous estimates. It states (at 8) that a large number of operators would be required at higher labor rates but does not otherwise explain these increases. Sprint believes that the deployment of AABS, which will automate many calls now handled by "live" operators, and the greater simplicity of dialing calling card

calls under BPP, will result in an increased proportion of calls made without the use of "live" operators, and for that reason urges the Commission to look on any estimate that includes a substantial increase in the use of "live" operators with a healthy dose of skepticism.

NYNEX (Attach. C-1) projects somewhat lower capital and non-recurring expenses for BPP implementation than its previous estimate ($120.4 million, compared with $129.4 million) but shows an increase in recurring costs (all attributable to operators, but with no explanation for this increase) from $13.7 million to $20.7 million. However, more than a third of the capital and non-recurring costs -- $48.5 million -- relate to OSS7 end-office implementation. NYNEX concedes (at 9) that BPP could be provided without OSS7 software in end-offices but claims that this would increase call set-up time by approximately four seconds (Comments at 9). However, the four seconds in call set-up time would be offset by the additional time it now takes consumers to dial an 800 access code to reach their preferred carrier and is well worth the avoidance of additional OSS7 deployment costs.

Southwestern Bell reports (at 6) revised costs that are 26% below its previous estimate: its non-recurring costs amount to $119 million (Attachment A) compared with its previous estimate of $161 million. While its recurring costs have risen from $9 million to $15 million (id.), nearly all of those costs relate to operator wages which, as discussed above, should be carefully scrutinized by the Commission.

Turning to the independent LECs, Cincinnati Bell projects $5.6 million in non-recurring costs for OSS7 deployment, but assumes that it would have to deploy OSS7 at all 56 of its end-offices, an assumption with which Sprint disagrees. CBT also projects (at 4) $7.8 million in additional operator expense without any explanation or consideration of the possibility that deployment of AABS would reduce the need for live operator handling. While SNET states that its total first year costs could exceed $33 million, it concedes that a number of engineering assumptions and facilities architectures could be employed for BPP and states that it has no reliable basis for a forecast at this time (SNET at 6). USTA projects (at 4) non-recurring expenses for small independents (i.e., excluding GTE, Sprint, CBT and SNET) at $318.1 million. However, roughly 90% of this sum -- $272 million -- was attributable to end-office OSS7 functionality. Removing these costs would mean that the implementation costs for small LECs would be a quite modest $46.1 million in capital investment and $10.5 in annual operator expenses. USTA also includes (id.) $8.56 million in "customer solicitation and load". Sprint believes the simple notification procedure it advocates would largely eliminate this expense for the smaller independents.

In summary, much of the LECs' projected one-time implementation costs are attributable to two factors -- end-office implementation of OSS7 and balloting for 0+ PICs -- that Sprint believes can be avoided with no harm to the design

or implementation of BPP. Furthermore, the Commission should not accept the large projected increases in operator expense (or the large LIDB expense projected by Ameritech) without further support and documentation. And in considering the need for operators, the Commission should offset, for cost/benefit purposes, the decrease in the number of operators needed for intraLATA and local calls resulting from deployment of AABS against the increase (if any), in operators needed for interLATA calls (see, Sprint's Comments at 30-31).

The basic approach taken by the Commission in analyzing LEC implementation costs is also subjected to several criticisms that have no merit. First, AT&T (at 20), CompTel (at 6) and NYNEX (at 11-12) argue that overhead loadings should be added to the LECs' estimates of their implementation costs. Sprint disagrees. For purposes of comparing the benefits of BPP with the implementation costs, it makes no sense to add overhead loadings to the incremental costs attributable to BPP. There is no reason to believe that the LECs' overall overhead expenses will rise as a result of BPP implementation. While it would be appropriate to include some allowance for overheads in the cost recovery charges imposed by the LECs when BPP is implemented, that would merely have the effect of shifting those overheads away from other existing services to BPP, and the IXCs will benefit from the lower overhead expense recovered from the other access services they purchase.

AT&T (at 20-21) and CompTel (at 8) fault the Commission's analysis for not reflecting the costs of the form of balloting it has proposed. The only relevant issue is whether such costs are included in the LECs' current submission. The updated submissions of many of the LECs, discussed above, do show allowances for balloting costs (although, as pointed in the above discussion, other LECs have provided no detailed breakdown of their cost estimates). Sprint would agree that all LECs should be required to break down their costs to give visibility to such cost functions. In any event, such costs could be largely avoided if simple notification were employed instead of the form of balloting proposed by the Commission.

CompTel also alleges (at 6) that the Commission failed to include any allowance for return on the new investment that would be needed to implement BPP. We believe CompTel has overlooked n.43 of the Further Notice, in which the Commission explicitly includes an annual charge factor that permits recovery of non-recurring expenses over five years and principal, interest and other costs of capital investments over their life expectancy.

AT&T and NYNEX both quarrel with the Commission's treatment of independent LEC costs. AT&T argues (at 19) that the Commission overlooked the expense estimates of SNET and the Sprint LECs, which is irrelevant in light of the updating of the record by both parties. It is worth noting, however, that AT&T erroneously states (n.30 at 19) that Sprint's earlier estimates did not include recurring costs for BPP.